

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

ST. CLAIR HOUSING COMMISSION

Financial Statements

December 31, 2006

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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John C. DiPiero, P.C.

Certified Public Accountant

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Board of Commissioners
St. Clair Housing Commission
400 South Third Street
St. Clair, Michigan 48079

Independent Auditor's Opinion

I have audited the financial statements of the St. Clair Housing Commission Business Type Activities as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Clair Housing Commission as of December 31, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 27, 2007, on my consideration of the St. Clair Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Required Supplemental Information

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

July 27, 2007

As management of the St. Clair Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the St. Clair Housing Commission's financial activities for the FYE 12/31/06. This discussion and analysis letter of the St. Clair Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

Overview of the Financial Statements

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

St. Clair Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 12/31/06:

	<u>FYE</u> <u>12/31/06</u>	<u>FYE</u> <u>12/31/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Public Housing Operating Subsidy	67,102	57,148	9,954	17.42%
Capital Fund Program Grants	25,313	70,668	(45,355)	-64.18%
Sec. 8 Voucher	149,003	149,523	(520)	-0.35%
Total	241,418	277,339	(35,921)	-12.95%

The subsidies for both Public Housing and Section 8 remained relatively stable. The decrease in Capital Fund Grants was due to the fact work projects during FYE 12/31/06 proceeded along at a slower pace than in FYE 12/31/05.

It should be noted that the subsidy for Public Housing should have increased much more than it did. The small increase is due to the HUD pro-ration factor. FFY 2005 subsidy (our FYE 12/31/05) was paid at 88.8% of full eligibility. The entire FYE 12/31/05 subsidy was paid at this pro-rata rate.

The FFY 2006 subsidy was paid at 86.02% of full eligibility. The entire FYE 12/31/06 subsidy was paid at this pro-rata rate. If subsidy had been funded at 100% for both years, we would have received a total of \$78,008 in FYE 12/31/06 and \$64,356 in FYE 12/31/05, resulting in an increase of \$13,652. The pro-ration factor cost us \$10,906 in FYE 12/31/06 and \$7,208 in FYE 12/31/05.

The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>12/31/06</u>	<u>FYE</u> <u>12/31/05</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Cash & Investments	203,557	144,327	59,230	41.04%
Total Current Assets	206,031	149,643	56,388	37.68%
Fixed Assets, Net of Depreciation	658,619	706,040	(47,421)	-6.72%
Total Liabilities	101,526	71,816	29,710	41.37%
Total Equity/Net Assets	763,124	783,867	(20,743)	-2.65%

Cash and Investments increased substantially due mainly to two factors:

1. During 2006 we received the entire 2006 Capital Fund Program grant amount. This grant receipt exceeded the expenditures for this program during 2006 by \$37,198, resulting in both excess cash and an entry for deferred revenue at the year-end.
2. Cash also increased in the Public Housing Program in proportion to the operating income (excluding depreciation charges) posted by the Public Housing Program.

Current Assets increased mainly due to the increases in Cash and Investments, as explained above.

Fixed Assets decreased by \$47,421. Although Fixed Assets increased by \$21,720, this was more than offset by depreciation charges of \$74,047. We also had office equipment disposition of \$4,907, resulting in the net decrease stated in the above table.

Total Liabilities increased mainly due to the Deferred Revenue in the Capital Fund Program, discussed above under Cash & Investments.

Total Net Assets is comprised of two components: Invested in Capital Assets, which mirrors the decrease in Fixed Assets, Net of Depreciation as explained above. The other component is Unrestricted Net Assets, or what used to be called Operating Reserves. This figure increased due to the Operating Income generated by the Public Housing Program for FYE 12/31/06. There was also an increase in the HAP Reserve Equity for Section 8.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	FYE 12/31/06	FYE 12/31/05	Dollar Change	Per Cent Change
Revenues:				
Tenant Revenue	195,409	181,839	13,570	7.5%
Other Revenue	11,156	5,144	6,012	116.9%
Total PHA generated Revenue	206,565	186,983	19,582	10.5%
Operating Subsidies/Soft Cost Grant Revenue	217,348	206,671	10,677	5.2%
Capital Grants (Hard costs)	24,070	70,668	(46,598)	-65.9%
Total Revenue	447,983	464,322	(16,339)	-3.5%
Expenses:				
Administrative	96,480	91,212	5,268	5.8%
Tenant Services		1,141	(1,141)	-100.0%
Utilities	59,245	57,192	2,053	3.6%
Maintenance	100,835	99,590	1,245	1.3%
Protective Services	761		761	
General	10,199	10,133	66	0.7%
Housing Assistance Payments	127,159	133,137	(5,978)	-4.5%
Depreciation	74,047	65,337	8,710	13.3%
Total Expenses	468,726	457,742	10,984	2.4%
Net Increase (Decrease)	(20,743)	6,580		

Revenues:

St. Clair Housing Commission's primary revenue sources are subsidies and grants received by HUD. For FYE 12/31/06, revenue generated by the Commission accounted for \$206,565 (or 46% of total revenue), while HUD contributions accounted for \$241,418 (or 54% of total revenue). Investment Income increased due to rising interest rates.

Expenses:

Total Expenses for FYE 12/31/06 were \$468,726 while for FYE 12/31/05 the total was \$457,742. This represents just a 2.4% increase in our Operating Costs, an amount that can be substantially attributed to inflation.

The largest increase was posted in Administrative costs. Administrative salary increased by 3%, as approved by the Board of Commissioners; we also had some high maintenance expenses on our computer during 2006 due to the age of the equipment; we replaced the old PC late in the year.

Budget Analysis:

A Low Rent Public Housing Operating Budget for FYE 12/31/06 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

Entity-Wide Operational Highlights:

The St. Clair Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>FYE</u> 12/31/06	<u>FYE</u> 12/31/05
Low Rent Public Housing	62	62
Sec. 8 Voucher	30	30

During FYE 12/31/06, St. Clair Housing Commission maintained a lease-up rate of 99.1% in its Public Housing Program and a lease-up rate of 100% in its Section 8 program. These lease-up rates are well in excess of HUD guidelines.

During FYE 12/31/06, our Capital Fund Program work project began with the discovery of contaminated ground soil to due the neglect of underground storage tanks. During 2006, our costs were mainly engineering, testing and consulting costs, along with the actual removal of the tanks. This project is ongoing, as the soil has to be re-tested every few weeks, and, if more contaminated soil is discovered, more remedial work to correct the situation must proceed.

Economic Factors and Next Year's Budget and Rates

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Lorena Loren, Executive Director
St. Clair Housing Commission
400 S. Third St.
St. Clair, MI 48079

ST. CLAIR HOUSING COMMISSION
Statement of Net Assets
December 31, 2006

ASSETS

C-3068

CURRENT ASSETS

Cash	\$	203,557	
Prepaid Expenses & Other Assets		<u>2,474</u>	
Total Current Assets	\$		206,031

NON CURRENT ASSETS

Land	\$	30,000	
Buildings & Improvements		898,980	
Furniture, Equipment- Dwellings		39,418	
Furniture, Equipment- Administrative		29,973	
Leasehold Improvements		801,988	
Accumulated Depreciation		<u>(1,141,740)</u>	
Total Non Current Assets			<u>658,619</u>

<u>TOTAL ASSETS</u>	\$	<u>864,650</u>
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ST. CLAIR HOUSING COMMISSION
Statement of Net Assets
December 31, 2006

LIABILITIES & NET ASSETS

C-3068

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	3,382
Accrued Wages & Payroll Taxes		16,631
Accrued Compensated Absences		2,012
Tenants Security Deposit		14,811
Deferred Revenue		37,365
Other Current Liabilities		<u>9,216</u>
<u>Total Current Liabilities</u>	\$	83,417

NONCURRENT LIABILITIES

Accrued Compensated Absences		<u>18,109</u>
<u>Total Liabilities</u>	\$	101,526

NET ASSETS:

Investment in Fixed Assets net of Related Debt	\$	658,619
Unrestricted Net Assets		<u>104,505</u>
<u>Total Net Assets</u>		<u>763,124</u>

<u>TOTAL LIABILITIES & NET ASSETS</u>	\$	<u>864,650</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

ST. CLAIR HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended December 31, 2006

OPERATING REVENUE

Tenant Rental Revenue	\$ 190,801	
Tenant Revenue-Other	4,608	
HUD Grants	217,348	
Interest Income	6,183	
Other Income	<u>4,973</u>	
<u>Total Operating Revenue</u>		\$ 423,913

OPERATING EXPENSES

Administrative	\$ 96,480	
Utility Expenses	59,245	
Ordinary Maintenance	100,835	
Protective Services	761	
General Expenses	<u>10,199</u>	
<u>Total Operating Expenses</u>		<u>267,520</u>
<u>Operating Income (Loss)</u>		\$ 156,393

NONOPERATING REVENUE (EXPENSES)

Housing Assistance Payments	\$ (127,159)	
Depreciation Expenses	<u>(74,047)</u>	
<u>Total NonOperating Revenue (Expenses)</u>		<u>(201,206)</u>
<u>Income (Loss) before Contributions</u>		\$ (44,813)

CAPITAL CONTRIBUTIONS

		<u>24,070</u>
<u>Changes in Net Assets</u>		\$ (20,743)
Total Net Assets- Beginning		<u>783,867</u>
Total Net Assets- Ending		\$ <u>763,124</u>

The Accompanying Notes are an Integral part of the Financial Statements

ST. CLAIR HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended December 31, 2006

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$	195,409
Payments to Suppliers		(270,852)
Payments to Employees		(91,276)
HUD Grants		241,418
Other Receipts (Payments)		<u>11,156</u>
Net Cash Provided (Used) by Operating Activities	\$	85,855

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets	\$	<u>(26,625)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	59,230
Balance- Beginning of Year		<u>144,327</u>
Balance- End of Year	\$	<u>203,557</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Net Profit or (Loss)	\$	(20,743)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation		74,047
Changes in Assets (Increase) Decrease:		
Receivables (Gross)		5,800
Prepaid Expenses		45
Changes in Liabilities Increase (Decrease):		
Accounts Payable		(10,163)
Accrued Liabilities		(233)
Security Deposits		936
Deferred Revenue		37,365
Accrued Liabilities-Other		<u>(1,199)</u>
Net Cash Provided by Operating Activities	\$	<u>85,855</u>

The Accompanying Notes are an Integral part of the Financial Statements

ST. CLAIR HOUSING COMMISSION
Notes to Financial Statements
December 31, 2006

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

St. Clair Housing Commission, St. Clair, Michigan, (Commission) was created by ordinance of the city of St. Clair. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 59-1	Low rent program	62 units
MI 28-E052	Section 8 Existing	30 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided that they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 48,621
Savings Accounts	154,836
Petty Cash	<u>100</u>
Financial Statement Total	<u>\$ 203,557</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 48,621	\$	\$	\$ 48,621	\$ 48,621
Petty Cash	100			100	100
Money Market	<u>154,836</u>			<u>154,836</u>	<u>154,836</u>
Total Cash	\$ <u>203,557</u>	\$	\$	\$ <u>203,557</u>	\$ <u>203,557</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning</u>		<u>Additions</u>	<u>Deletions</u>	<u>End</u>
	<u>of Year</u>				<u>of Year</u>
Land	\$ 30,000	\$	\$	\$	30,000
Buildings	898,980				898,980
Furniture & Equipment-Dwellings	39,418				39,418
Furniture & Equipment-Admin	32,325			2,352	29,973
Leasehold Improvements	<u>777,917</u>	<u>26,625</u>	<u>2,554</u>	<u>801,988</u>	
	\$ 1,778,640	\$ 26,625	\$ 4,906	\$ 1,800,359	
Less Accumulated Depreciation	<u>1,072,599</u>	<u>74,047</u>	<u>4,906</u>	<u>1,141,740</u>	
	\$ <u>706,041</u>	\$ (47,422)	\$	\$ 658,619	

Note 4: Accrued Liabilities.

Accrued liabilities consists of the following:

Accrued Utilities Payable	\$ <u>9,216</u>
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Notes to Financial Statements- continued

Note 5: Pension Plan

The Commission participates in a pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all full time employees and requires a minimum contributions by the employee. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

Note 6 :Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 4,247,000
General Liability	1,000,000
Dishonest Employees	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

St. Clair Housing Commission

31-Dec-06

MI052

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	ASSETS:				
	CURRENT ASSETS:				
	Cash:				
111	Cash - unrestricted	168,432	20,314	-	188,746
112	Cash - restricted - modernization and development	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits	14,811			14,811
100	Total cash	183,243	20,314	-	203,557
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects				-
122	Accounts receivable - HUD other projects	-	-	-	-
125	Accounts receivable - miscellaneous				-
126	Accounts receivable- tenants - dwelling rents	-			-
126.1	Allowance for doubtful accounts - dwelling rents				-
127	Notes and mortgages receivable- current				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable	-			-
120	Total receivables, net of allowances for doubtful accounts	-	-	-	-
	Current investments				-
131	Investments - unrestricted	-			-
132	Investments - restricted				-
142	Prepaid expenses and other assets	2,474			2,474
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	13,950	-	37,198	51,148
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	199,667	20,314	37,198	257,179
	NONCURRENT ASSETS:				
	Fixed assets:				
161	Land	30,000			30,000
162	Buildings	898,980			898,980
163	Furniture, equipment & machinery - dwellings	39,418	-	-	39,418
164	Furniture, equipment & machinery - administrative	29,973	-	-	29,973
165	Leasehold improvements	777,918	-	24,070	801,988
166	Accumulated depreciation	(1,141,740)	-	-	(1,141,740)
160	Total fixed assets, net of accumulated depreciation	634,549	-	24,070	658,619
171	Notes and mortgages receivable - non-current				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	634,549	-	24,070	658,619
190	TOTAL ASSETS	834,216	20,314	61,268	915,798

	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	2,982	400		3,382
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	16,631	-		16,631
322	Accrued compensated absences	2,012			2,012
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		-		-
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	-	-	-	-
341	Tenant security deposits	14,811			14,811
342	Deferred revenues	167	-	37,198	37,365
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	9,216	-		9,216
346	Accrued liabilities - other	-	-		-
347	Inter-program - due to	37,198	13,950	-	51,148
310	TOTAL CURRENT LIABILITIES	83,017	14,350	37,198	134,565
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	18,109			18,109
350	TOTAL NONCURRENT LIABILITIES	18,109	-	-	18,109
300	TOTAL LIABILITIES	101,126	14,350	37,198	152,674
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	634,549	-	24,070	658,619
	Reserved fund balance:				
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	98,541	5,964		104,505
513	TOTAL EQUITY	733,090	5,964	24,070	763,124
600	TOTAL LIABILITIES AND EQUITY	834,216	20,314	61,268	915,798

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St. Clair Housing Commission

31-Dec-06

MI052

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	REVENUE:	-	-		
703	Net tenant rental revenue	190,801	-		190,801
704	Tenant revenue - other	4,608			4,608
705	Total tenant revenue	195,409	-	-	195,409
706	HUD PHA grants	67,102	149,003	25,313	241,418
708	Other government grants				-
711	Investment income - unrestricted	5,469	714	-	6,183
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	4,973	-	-	4,973
716	Gain or loss on the sale of fixed assets	-			-
720	Investment income - restricted				-
700	TOTAL REVENUE	272,953	149,717	25,313	447,983
	EXPENSES:				
	Administrative				
911	Administrative salaries	36,371	10,000	-	46,371
912	Auditing fees	4,000	-		4,000
913	Outside management fees				-
914	Compensated absences	3,004			3,004
915	Employee benefit contributions- administrative	19,289	3,500	-	22,789
916	Other operating- administrative	15,523	3,550	1,243	20,316
	Tenant services				
921	Tenant services - salaries				-
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services				-
924	Tenant services - other	-			-
	Utilities				
931	Water	6,310			6,310
932	Electricity	25,140			25,140
933	Gas	27,795			27,795
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	44,905			44,905
942	Ordinary maintenance and operations - materials & other	15,051		-	15,051
943	Ordinary maintenance and operations - contract costs	17,303		-	17,303
945	Employee benefit contributions- ordinary maintenance	23,576			23,576
	Protective services				

[illegible]

ST. CLAIR HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
December 31, 2006

I have audited the financial statements of the St. Clair Housing Commission of St. Clair, Michigan, as of and for the year ended December 31, 2006, and have issued my report thereon dated July 27, 2007. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weakness.

This report is intended for the information of management, the Board of Commissioners, and federal and state funding agencies, and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
July 27, 2007

ST. CLAIR HOUSING COMMISSION
Report on Compliance Applicable to
Non Major HUD Program
December 31, 2006

I have audited the financial statements of St. Clair Housing Commission, St. Clair Michigan, as of and for the year ended December 31, 2006, and have issued my report dated July 27, 2007.

In connection with my audit and with my consideration of the Commission's internal control used to administer HUD grants, I selected certain transactions applicable to the non-major HUD programs for the year ended December 31, 2006; I performed auditing procedures to test compliance with the requirements governing the Commission's grants. My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Commission's compliance with those requirements. Accordingly, I do not express such an opinion.

Material instances of noncompliance consist of failures to follow the specific requirements referred to above that caused me to conclude that the misstatements resulting from those failures are material to the Commission's grants. I did not discover material instances, however, did find control deficiencies that require disclosure. The results of my tests and the instances of noncompliance are described in the accompanying schedule of findings and questioned costs.

This report is intended solely for the information of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant
Hemlock, Michigan
July 27, 2007

ST. CLAIR HOUSING COMMISSION
Status of Prior Audit Findings
December 31, 2006

The prior audit of the St. Clair Housing Commission for the period ended December 31, 2006, did not contain audit findings.

ST. CLAIR HOUSING COMMISSION
Schedule of Findings and Questioned Cost
December 31, 2006

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Housing Assistance Program		X
Capital Fund Projects		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	None
Housing Assistance Program	No	None	None
Capital Fund Project	No	None	None